

**Management Advisory Report: The Small
Business/Self-Employed Division Has Made
Significant Progress in Addressing Its Human
Capital Needs but Still Must Plan for
Long-Term Challenges**

December 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

December 26, 2001

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - The Small Business/
Self-Employed Division Has Made Significant Progress in
Addressing Its Human Capital Needs but Still Must Plan for
Long-Term Challenges (# 200130034)

This report represents the results of our review of the efforts of the Small Business/ Self-Employed (SB/SE) Division to address its human capital needs. The overall objective of this review was to determine whether the SB/SE Division's strategy to retain, recruit, and train employees is sufficient to help avoid the risk of future staffing shortages and skill gaps in critical areas.

In summary, the SB/SE Division has made significant progress in addressing its human capital needs. For example, during Fiscal Year 2001, a national compliance hiring initiative resulted in the successful hiring of over 1,400 technical compliance employees, including approximately 640 revenue agents. The SB/SE Division also initiated extensive efforts to address the areas of training and retention of its workforce. However, SB/SE Division management still needs to complete a comprehensive assessment of its long-term human capital requirements and to improve management information regarding its recruiting efforts.

Since we are making no recommendations in this management advisory report, a response is not required. Copies of this report are also being sent to the Internal Revenue Service managers affected by the report. Please contact me at (202) 622-6510 if you have questions or Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Background

Because human capital is the most valuable asset held by government agencies, human capital planning should be an integral part of any organization's strategic and program planning. The General Accounting Office classifies strategic human capital management as a high-risk area for the federal government. Inadequate attention to strategic human capital management has created a government-wide risk of eroding the capacity of some agencies to economically, efficiently, and effectively perform their missions.

The Internal Revenue Service's (IRS) Small Business/Self-Employed (SB/SE) Division, which is comprised of over 41,000 employees, will face significant human capital changes in the next several years. For example, 43 percent of the Division's workforce is eligible for retirement by October 1, 2006. Many of these personnel are front-line employees doing tax compliance work, such as revenue agents and tax auditors. Currently, the average age of an IRS revenue agent is 48.5 years, and the average length of service is 19.8 years. There are approximately 5,900 revenue agents in the SB/SE Division.

We conducted this review at SB/SE Division Headquarters from July through October 2001. The scope of our work was limited to reviewing documentation of workforce planning efforts and interviewing management involved in the recruiting, training, and retention of Division staff. We also reviewed available management information regarding human capital. We did not perform detailed substantive testing of IRS personnel records. Similarly, we did not perform any in-depth testing of the information contained in the summary reports provided by the SB/SE Division regarding hiring and training.

The review was conducted in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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Management Has Taken a Number of Actions to Address Its Human Capital Needs

The SB/SE Division has taken a number of actions to address its human capital needs in the areas of recruiting, training, and retention. For example:

- During Fiscal Year (FY) 2001, a national compliance hiring initiative resulted in the successful hiring of over 1,400 technical compliance employees, including approximately 640 revenue agents. Interviews were held at approximately 100 colleges and universities nationwide as part of this effort.
- A final blueprint for the *SB/SE Embedded Learning and Education Organization* was completed in June 2001. The blueprint outlines the nationwide deployment of the Learning and Education staff, organizational objectives, and coordination with other IRS functions. A rollout of the implementation plan is scheduled for delivery in September 2002. In addition, a variety of changes were made to the training provided to FY 2001 hires. For example, additional on-the-job training units were incorporated in the revenue agent training to allow for a more immediate application of tax law learned.
- Career path reviews were initiated or are planned for a variety of essential positions within the SB/SE Division. Career path reviews evaluate whether sufficient advancement opportunities are available within the Division to ensure retention of its highly trained technical employees. Some of the positions covered by the career path reviews include revenue agent and tax specialist.

Management Has Not Yet Established a Long-term Human Capital Planning Strategy

SB/SE Division management has not yet established a long-term human capital planning strategy. A key part of the management of human capital is an assessment of long-term staffing and skill needs and development of a strategy to meet those needs. Management informed us that their human capital planning efforts to date have primarily been focused on issues relating to the organizational stand-up and subsequent implementation of the SB/SE Division.

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To effectively prepare for the human capital challenges of the next several years, additional efforts are needed in the area of workforce planning. Key to this effort is an assessment of the workforce and competencies needed to achieve the future goals and projected workload of the Division. After this effort is completed, a careful assessment of the gaps between the Division's projected needs and its current human capital resources, including competencies, should be completed.

The need for effective long-term human capital planning is especially urgent for the Division, given the composition of its current workforce. In recognition of the critical need to effectively manage its workforce planning efforts, the IRS established an agency-wide workforce planning council in September 2001. The council is responsible for developing a 2-year agency-wide staffing plan and is co-chaired by 2 top level IRS executives.

Presently, 43 percent of the over 41,000 employees in the SB/SE Division workforce are eligible for retirement by October 1, 2006. Without such planning, the SB/SE Division may be faced with not having the right employees, with the right skills and competencies, in the right places.

Sufficient Management Information Regarding the Recruiting Process Is Not Readily Available

The hiring of over 1,400 technical compliance employees in FY 2001 represented the first major recruitment effort by the SB/SE Division since its inception. However, sufficient management information is not readily available to allow SB/SE Division management to provide for ongoing analysis of the success of this recruiting process.

Responsible managers and operations personnel within the Division do not have ready access to tabulated information regarding job applicants and new-hires. For example, nationwide information regarding the number of applicants interviewed, the number of offers tendered and accepted, and the number of new employees leaving during the training process is not readily available.

Timely and relevant management information is critical for effective decisions regarding planning, evaluating alternatives, monitoring progress, and measuring performance. This information is essential as the IRS

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continues its efforts to expand its compliance staff. Presently, the SB/SE Division plans to hire approximately 1,800 technical employees in FY 2002. Without such information, management's ability to identify successful recruiting efforts and areas for improvement may not be sufficient.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Small Business/Self-Employed (SB/SE) Division's strategy to retain, recruit, and train employees is sufficient to help avoid the risk of future staffing shortages and skill gaps in critical areas. In order to accomplish this objective, we:

- I. Determined whether the SB/SE Division human resources planning process results in the identification of the numbers and types of employees needed in the future to accomplish organizational objectives.
 - A. Determined whether the SB/SE Division has a clearly defined long-range human capital strategy.
 - B. Evaluated whether the SB/SE Division has determined the skills base and needs of its current and future workforce.
- II. Determined whether the SB/SE Division staffing process provides the organization with qualified staff to meet the needs of line management and support their efforts to achieve organizational objectives.
- III. Determined what processes or programs are in place or are in development to retain a high-performing workforce.
 - A. Determined whether the SB/SE Division has identified the factors likely to influence employee retention.
 - B. Determined whether potential career paths are clearly identified.
- IV. Determined whether the SB/SE Division has taken effective steps to develop a training program that contributes to the employees' acquisition of knowledge, skills, and change of attitudes required to meet work expectations and prepares employees to assume other, greater responsibilities.
 - A. Reviewed the SB/SE Division's training and professional development strategy.
 - B. Determined if training is being delivered to employees in a manner that promotes constant learning.
- V. Determined if the SB/SE Division has access to comprehensive management information regarding its human resources.

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Appendix II

Major Contributors to This Report

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Parker Pearson, Director

Anthony Choma, Audit Manager

Philip Smith, Senior Auditor

Cristina Johnson, Auditor

Rashme Sawhney, Auditor

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Appendix III

Report Distribution List

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